MANAGEMENT REPORT

2009

NORTH

SERVICE, STRENGTH, QUALITY

MANAGEMENT REPORT SUMMARY

- Technical underwriting surplus in 2008/9
- Free reserves US$211.1 million at 20 February 2009
- Net assets of US$663.5 million at 20 February 2009
- Standard & Poor's 'A' rating maintained
- No unbudgeted or supplementary calls for 18 years
- Total entered tonnage of 95 million GT at 20 February 2009
- 15% year on year growth of mutal owned entry
- Further high calibre staff recruitment

Photography front cover: 'Setting Sun on the River Tyne'. This cover design introduces a new theme of using imagery from the four locations of North Offices.

Registered in England. Company registration number: 505456
VAT registration number: 828 5711 10

FINANCIAL SUMMARY

FIVE YEAR COMBINED SUMMARY

Amount in US$ million; All classes

Income and expenditure

	2008/09	2007/8	2006/7	2005/6	2004/5
Premium	255.1	213.0	193.5	177.1	174.5
Investment income less tax	(13.5)	38.5	54.8	30.1	20.6
Exchange (loss) / gain	(27.8)	5.1	11.2	(2.0)	1.6
Reinsurance costs	(44.2)	(34.5)	(28.6)	(24.0)	(32.6)
Net claims incurred	(142.2)	(162.1)	(179.7)	(130.9)	(136.2)
Expenses	(36.3)	(30.2)	(29.0)	(24.3)	(19.4)
Decrease / increase in free reserve	(8.9)	29.8	22.2	26.0	8.5

Balance sheet

	Feb-09	Feb-08	Feb-07	Feb-06	Feb-05
Investments	227.3	570.4	517.5	433.8	355.8
Cash and cash equivalents	413.4	79.9	85.5	96.2	121.3
Other assets	45.6	50.0	48.3	38.1	25.9
	686.3	700.3	651.3	568.1	503.0
Creditors	(22.8)	(21.5)	(17.3)	(27.0)	(17.8)
Net assets	663.5	678.8	634.0	541.1	485.2
Net outstanding claims	(452.4)	(458.8)	(443.8)	(373.1)	(343.2)
Free reserves	**211.1**	**220.0**	**190.2**	**168.0**	**142.0**

CHAIRMAN'S STATEMENT

In the year since my last statement, the shipping industry has moved from a position where everything was conducted at a frantic pace, with record-breaking freight rates, massive new ship building order books, fully occupied shipyards, congested ports and seafarer shortages to one of plummeting trade, an under utilised fleet, laid-up ships, a rush to scrap ships, huge financial losses, company failures and cancelled investments. The turn around has been staggering.

In a global financial meltdown of such magnitude, clearly no one is immune. Despite our traditionally cautious and conservative financial approach, North has not escaped unscathed. However, the steps that we took at key moments to limit our investment risk have, we believe, insulated us from the worst extremes of the financial turmoil.

In spite of volatile and testing conditions, North has achieved an improved underwriting performance which has delivered an underwriting surplus. A stable 2008/9 policy year claim performance and improvements in the claim results of previous years has seen the combined ratio improve from 108% to 88% at 20 February 2009. The strong underwriting performance was countered by an investment loss of 4.24% which led to an overall reduction of US$8.9 million in the Club's free reserves which fell to US$211.1 million from their previous record high at 20 February 2008. Net assets stood at US$663.5 million at 20 February 2009 down from the US$678.8 million at the same point in 2008.

The investment performance could have been so much worse. We began protecting our balance sheet in summer 2007, reducing the proportion of equities in our portfolio and that process continued through 2008 to the point where in mid October 2008 we had sold all of our equities. That proved to be the right policy. We still suffered losses but are satisfied that we acted correctly to protect our portfolio. At the year end 20 February 2009, after further de-risking, we held approximately 70% in cash and 30% in primarily government bonds. While no company wants to lose money, in the current climate our result is a great deal better than it might have been and our performance ranks well against our peers.

I HAVE SEEN THAT NORTH "SPIRIT" WHICH INSPIRES MEMBERS' CONFIDENCE AND DELIVERS THE TOP-QUALITY SERVICE UPON WHICH WE INSIST AND TO WHICH OUR MEMBERS HAVE BECOME ACCUSTOMED.

Albert Engelsman

We believe this is testament to North's overall financial resilience, to the conservative way in which our managers and Board run the Club, and to the prudent investment decisions that were made. Our financial strength was also underlined when Standard and Poor's confirmed our 'A' (stable) rating for the fifth consecutive year. In short, we have been tested and although we have suffered we have shown our resilience and have come out in good shape. We achieved our objective of not adding to the burden on our Members by asking for additional unbudgeted funding – a notable achievement when much of the P&I industry has had to resort to un-forecast supplementary funding in recent months. In the circumstances we can look back with satisfaction on a job well done.

It is difficult to predict how the current shipping downturn will affect P&I claims. A reduction in world trade could lead to a reduction in claims activity but historically our experience is that there is a time delay before claims activity begins to subside.

What is painfully clear is that all P&I Clubs are entering a new era, a sea change in which they can no longer rely on investment income to subsidise losses on the claims side. It is likely that all members of the International Group can now be expected to pursue an extremely conservative investment strategy.

In essence, it will be "back to basics" with an increased emphasis on achieving break-even underwriting whilst maintaining a low risk investment strategy.

Well in advance of the 2009 renewal, all P&I Clubs were warning of tough times ahead, reflecting continuing high claims and the need to break the reliance on investment income. North achieved a general increase of 17.5% in P&I premium rates at the February 2009 renewal. We also sought and achieved deductible increases across the membership. We are very encouraged to see the level of Member support, in an extremely tough environment, in securing that increase which, in turn, has undoubtedly helped to further strengthen the Club's position. Despite the prevailing conditions, the renewal saw further progress, with North reaching a record total entered tonnage of 95m gt. We have welcomed more new high-quality Members to the Club and welcome the continued confidence shown by existing Members.

In anticipation of further growth, we have already recruited additional staff. It is vitally important that we are fully resourced to support existing and future Members, particularly in these demanding times. The downward spiral of world trade is presenting a huge challenge to all across the shipping industry. For our Members, it is critical to have a Club – and partner that they can rely on for support and advice. The constant theme and the question we ask ourselves is; "How can we help our Members work through this unprecedented economic turmoil? What additional services can we provide to support them in that battle?" This unbroken thread of service and quality extends beyond straight claims issues, to reducing costs and reducing risks.

We have seen a notable increase in the time spent by the Club's executives in giving general advice and assistance to Members. Of course our team is ready and willing to handle claims – but the emphasis is increasingly shifting towards assisting our Members in reducing and preventing those claims in the first place. All Members are looking to reduce their costs and an obvious way of achieving that is, of course, to avoid claims. In recognition of this, we have renewed the focus of our risk management and loss prevention strategy and we are applying a more member specific approach in our efforts.

CHAIRMAN'S STATEMENT (CONTINUED)

Solid, reliable, conservative – North has always placed the emphasis on these qualities and, in an uncertain world, these virtues have become ever more attractive to a wider range of shipowners. Naturally, we have taken a close look at our own costs and we are confident that we are running a cost-effective operation. Rather than reducing our workforce, it is imperative that we continue to recruit people in order to provide ever better service. We expect increased demand on the Club's resources and expertise, particularly at a time when Members may be cutting back on their own staff and reducing costs. As well as expanding our P&I resources, we have taken on additional staff to support increasing demands on our FD&D class. We have built up this department significantly in recent years and it has become an integral part of North – particularly at this time. We are seeing the impact of massive corrections in the shipping market. As a result of falling cargo volumes and freight rates some charterers are unable to honour their obligations. Many ships are worth less now than when they were built or purchased. This toxic mix was always going to lead to an increase in the number and cost of disputes, and our Members need a well-resourced, experienced and qualified defence partner to deal with such issues. We will continue our focus on providing a first-class service, based on our vision that we are an extension of our Members' offices.

The shipping industry has worked incredibly hard to educate politicians, legislators and the general public as to the vital role it plays in the world economy and the wellbeing and quality of life of everyone. Some good ground has been gained in the campaign to demonstrate that shipping is not just about oily seabirds and pollution and over the years the public perception of the industry has been improving. It has been a significant challenge – but slowly we are improving and building on our image. It is therefore vital that in the current downturn we do not reduce our efforts in this important area. Shipowners and operators might be tempted to cut corners on safety; it would be a nightmare scenario if we were to lose ground as a consequence of the economic downturn. As a Club, our response to such a possibility is to redouble our risk management efforts and assist our Members where we can through these tough times.

We all operate in a very challenging environment in which legislation regimes become more and more hostile. Shipowners continue to face huge pressures in the form of increased liabilities, regulations and conventions. Last year I wrote about the danger of this alarming "convention creep". This remains a significant issue. We continue to speak out on behalf of our Members, and we have encouraged the International Group to take a stronger lobbying position on a number of legislative issues thus giving shipowners a stronger voice. The Group's work in connection with the Bunker Convention was vital in supporting the interests of shipowners, and there is no doubt that the Group's secretariat is actively presenting the shipowners' perspective on various issues. Without shipping, the world would come to a grinding halt and we need constantly to remind people of that fact.

The appalling treatment in South Korea of the master and chief officer of the *Hebei Spirit* is just one example of the way in which seafarers continue to be treated like second-class citizens. In a series of cases, some high-profile, others not – seafarers are being made scapegoats and have been unjustifiably detained around the world. Often the cases are political. The seafarer is simply in the wrong place at the wrong time; the seafarer is a soft target. We urge all in the industry to redouble their efforts in support of seafarers' basic human rights.

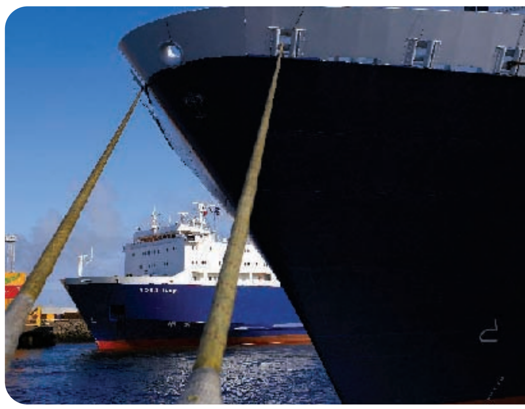
The scourge of piracy – particularly in the Gulf of Aden – is certainly turning the spotlight on to shipping, but again for all the wrong reasons. It is almost unbelievable that in 2009 the shipping industry should be plagued by such a risk to seafarers, and the situation has frightening potential for escalation. While piracy is not a direct P&I risk, it is nonetheless a very great concern to us and has already affected a number of our Members. More concerted government/international action is of vital importance in dealing with this issue. Media coverage of recent attacks has perhaps served to highlight the importance of world trade, but piracy is yet another assault on seafarers and another "event" that reduces the appeal of a career at sea. Young people do not go to sea to face violent attack any more than they expect to be made criminals for doing their duty. Whilst the negative aspects of a career at sea still appear to outweigh the positives, attracting sufficient high-quality, skilled young people into the industry remains a concern now and will remain so well into the future. Without a concerted effort and significant investment to encourage better recruitment and improved retention, our problems will not be solved. Today's slowdown may temporarily ease the shortage of seafarers but we need to ensure that we do not face even worse problems when the economy and world trade are revived.

North has continued to expand and grow in strength over the past ten years. We will continue to base all of our operations on high-quality Membership, excellent service and prudent finances. Two years ago we set ourselves the target of increasing owned tonnage, (by attracting further high quality shipowners in to the Club), in the medium term to 10% of the world's owned fleet and, in the longer-term, to a minimum of 12.5%. After my first year in the chair at North, we have met our medium-term objective and total tonnage entered now exceeds 100 million GT.

We said farewell to three members of our Board in the past year, following the sad and untimely death of Alex Marinos and the departure of Peter Henderson and Sliwa Michael. All three were Board members for long periods and we are grateful for their many years of contribution and service. In September 2009, Rodney Eccleston will retire as Managing Director of North. We will, however, continue to benefit from his experience and expertise as he will remain with us as a consultant. We would like to thank Rodney for all his dedication and hard work in bringing North to the strong position it holds today. We have come an incredibly long way since Rodney came to the Club – thanks to his remarkable leadership and to all of North's staff, managers, directors and Board members.

During my many visits to the Club's offices, when I have met many of our staff, I have seen that North "spirit" which inspires Members' confidence and delivers the top-quality service upon which we insist and to which our members have become accustomed. Alan Wilson and Paul Jennings will bring with them a wealth of experience when they take over as joint Managing Directors and they have the Board's full support as we all work together to meet the undoubted challenges that lie ahead.

Albert Engelsman
Chairman
July 2009



MANAGING DIRECTOR'S STATEMENT

Quality and reliability have long been watchwords at North and these virtues can only increase in importance as we work our way through the economic turmoil around us. As one of the leading P&I Clubs, we continue to focus on financial strength and providing the very best service available to our Members. We reached a record 95 million GT of total entered tonnage at the February 2009 renewal which has now grown to more than 100 million GT, a welcome confirmation that we are indeed getting our "formula" right. Following a detailed strategy review two years ago, we identified three principal strategic aims which formed the basis of a renewed vision in 2008. During 2009 that vision was reviewed and reaffirmed by the Board. We have continued to work towards our key aims and can report further progress in each of the three areas, namely to;

- **Maintain our financial and service strength, increase resources:**

We have indeed maintained our financial stability and strength, as illustrated by confirmation by Standard and Poor's of our 'A' rating for the fifth consecutive year. We have lost money on our investments due to the global financial meltdown but we are still strong and, relative to the industry, we have delivered a good result, a reflection of our financial resilience. While many P&I Clubs have resorted to un-forecast supplementary calls, North has not. In short, the business has been stressed enormously over the past 12 months but we have passed our stress test. Meanwhile, we have continued to recruit high calibre people to enable us to enhance the service we provide to our Members in this very difficult environment.

- **Increase owned tonnage in the Club in the medium term to 10% of world fleet:**

We have achieved that 10% target, we continue to work towards the longer term objective but always emphasise that we are not looking for growth for growth's sake. Growth is about quality and not quantity.

> I FIRMLY BELIEVE NORTH IS IN FINE SHAPE TO DEAL WITH THE TOUGH MARKETS AND DIFFICULT BUSINESS ENVIRONMENT AHEAD.
>
> Rodney Eccleston

- **Expand our product range, responding to the marine insurance needs of our growing and diverse Membership:**

A year ago we introduced a revised reinsurance structure for charterers and non-poolable risks, allowing us to offer a greater range of products. This is performing well and we have instigated a project to expand this facility to include offshore facilities to cater for Members involved in these markets.

These three key aims remain as relevant now as they did in the "boom" times.

We are recruiting quality staff in order to provide a better and better service and to help our Members to reduce their claims. In the past year we have expanded our global presence again – relocating our larger Greek team into new, more spacious offices, and adding staff in Hong Kong and Singapore, as well as at our head office in Newcastle. We have, of course, looked at ways to reduce our own costs – and are confident that we are delivering a cost-effective organisation. In this difficult market, the focus is redoubled on driving down claims costs and helping members; this is what the Club has always done.

This will be my last management report before I retire as Managing Director of North in September this year. I would like to thank the Board and all our staff for their support and friendship during my time in this position. While I will be sad to leave the job behind, I am also immensely proud to be associated with the Club and having been part of the success story. In the past year the Club has been tested and has not been found wanting. I firmly believe North is in fine shape to deal with the tough markets and difficult business environment ahead. I have gained tremendous satisfaction and enjoyment from my time with North, including travelling to meet Members. I am delighted that I will remain with North as a consultant and look forward to supporting our joint Managing Directors Alan Wilson and Paul Jennings and the entire team in the future.

The process of succession has been a smooth one, and I am pleased that North is reverting to the formula of two joint Managing Directors, a formula which has served the Club so well in recent years. Alan and Paul each bring over 25 years experience, and together with our Senior Management team, I am absolutely confident that we have one of the strongest and most experienced Management teams in the International group, who will continue to lead the Club to success in the future.

BUSINESS & OPERATIONAL REVIEW

FINANCIAL POSITION

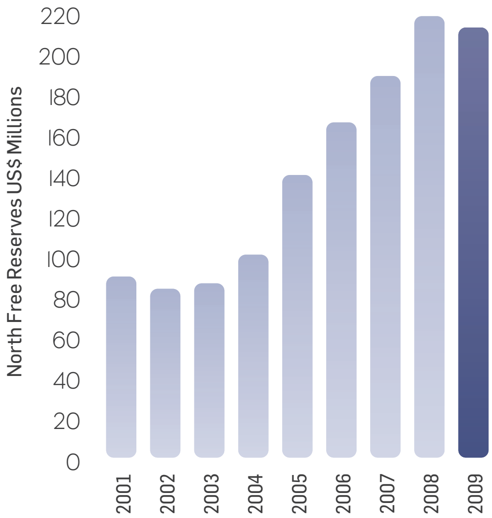
North's finances were severely tested during the year to 20 February 2009, as we coped with global economic turmoil, extremely volatile investment markets and increased claims activity. North's free reserves fell by just US$8.9 million from a record US$220.0 million in 2008 to US$211.1 million in 2009. As equity and credit markets weakened, we took pro-active steps to de-risk our investment portfolio and, as a consequence, were able to limit downside risk in very difficult circumstances. North began the process of de-risking the balance sheet in 2007, reducing our exposure to equities in the portfolio to the point where, in mid October 2008, we had sold all of our equity holdings. That policy proved to be appropriate given the market environment. Disappointingly, we suffered a loss of 4.24% against a benchmark of -4.17% but we believe our performance will stand up well to comparison with the industry.

Since October 2008 we have taken further steps to preserve capital, such that the majority of the investments we now hold are in Government bonds and vanilla money market instruments, with a very minor exposure to credit and absolute return funds.

Improved underwriting performance enabled North to achieve an underwriting surplus which, as a result of an improved 2008 policy year claims performance and following improvements in claim reserves for previous policy years, has seen the combined ratio improve from 108% to 88% for the 2008/9 financial year. Net assets of all classes stood at US$663.5 million at 20 February 2009.

Signs of Improvement

Many "bullish" market commentators are suggesting that recent releases of data from the manufacturing, housing market and labour markets suggest the "green shoots" of an economic recovery are evident. Whilst there do seem to be some signs of improvement, for instance the pace of contraction appears to have slowed, the most recent data still suggests that the global economic contraction remains in full swing with a very severe, deep and protracted U-shaped recession ahead. With uncertainty in the industrial economy, the risk that increases in commodity prices might choke sustainable recovery if this weighs on industrial production and consumption may be somewhat offset by the significant inventory levels in commodities such as oil. Although trade finance is no longer quite as impaired as at the turn of the year, global trade continues to be quite weak, as evidenced by recent data from China, the United States and other countries.



Although the outlook for global manufacturing and service sectors remains consistent with a significant fall in global GDP, the pace of contraction began to slow towards the end of the first quarter of 2009 – even in Europe and Japan, which have lagged the United States and China. Globally, surveys suggest that manufacturing outlook has improved from the freefall of the end of the fourth quarter of 2008 and early 2009.

Some emerging economies such as China may now be experiencing expansion based on direct government investment but most advanced economies remain firmly in contraction territory. In part, inventory adjustment following the sharp destocking which took place in the second half of 2008 could contribute to a revival in demand but a real increase in "end user" demand, necessary to support a sustainable fast-paced recovery, could be far off.

At present, however, the market appears to be dependent on governments handing out cash to help fund banks. While it may be the case that the pace of economic decline is no longer as negative as it was at the peak of the post-Lehman credit contraction, the reality is that employment, output, organic personal income and retail sales are still in a fundamental downtrend.

Conservative Approach

North expects to remain cautious for the time being, in order to protect capital – in line with our traditionally conservative approach. Our Investment Committee, consisting of non-executive Member Directors, continues to monitor the situation with frequent regularity. As trustees of our Members' money, we will remain vigilant. North has not resorted to raise capital by way of unbudgeted supplementary calls during the financial year. We focus very heavily on correctly pricing risk at the outset and we do not expect to have to rely on unbudgeted supplementary calls, particularly in these difficult times for shipowners, whether as a result of investment losses or underwriting deficits. Achieving a technical underwriting balance has always been our target and the events of the past year have underlined the importance of this objective, with the contribution from investment income no longer assured.

North's five key financial principles have served us well and continue to be central to our policies, they remain;

- Prudent and cautious underwriting;
- Careful and conservative claims management and reserving;
- A low-risk investment strategy, based on capital preservation;
- Comprehensive and highly secure reinsurance; and
- Close monitoring of management and expenses.

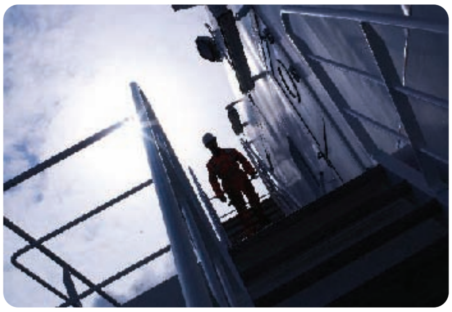
REINSURANCE

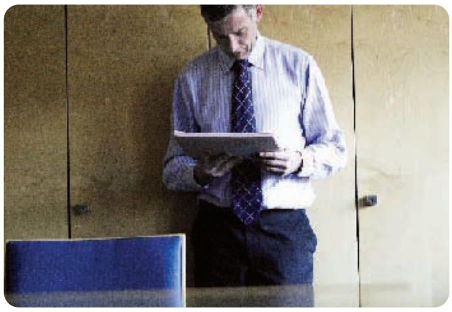
North recognises the importance of having in place an efficient reinsurance programme that reduces extreme volatility and reflects the Club's prudent financial approach and the long-term nature of P&I liabilities. The major part of the Club's reinsurance structure is participation in the International Group's pooling and excess Loss reinsurance programme.

Pooling Agreement

The 2008 policy year was dramatically better than the previous two years and the best for several years – with only six claims reported to the International Group Pool with a total gross value of US$129 million at 20 February 2009. This is an extremely welcome result after the industry was hit by gross claim values of US$909.92 million and US$815.03 million in 2006 and 2007 respectively, and it would seem to suggest that those two years were indeed inextricably linked to the high freight markets. North had one potential claim into the Pool during 2008/2009 but our historical record remains satisfactory as we remain a net contributor to the Pool.

BUSINESS & OPERATIONAL REVIEW (CONTINUED)





The collective reinsurance arrangements of the International Group are an integral part of the efficient operation of the Group and the pooling of claims is an essential component. We welcome the changes to the pooling mechanism that are designed to ensure the system works equitably. We would once again urge further gradual adjustment to ensure that the system continues to run smoothly. If adjustments are made too quickly, we fear this will encourage volatility.

The debate over increasing the Pool retention continues but our view remains the same. We support inflation-indexed, gradual increases in the retention level but we do not agree that higher retention levels necessarily lead to more disciplined underwriting.

International Group Excess of Loss Contract

Following the significant restructuring of the International Group's General Excess of Loss Reinsurance Contract in 2007, there have been no changes to the structure for the last two years and the reinsurance programme continues to operate with three layers – two of US$500 million and one of US$1 billion. In addition, the International Group has again purchased a collective overspill protection layer of US$1 billion. A further increase in International Group reinsurance costs of 14% has been applied for 2009/10.

The International Group Marine Reinsurance Contract continues to be the largest in the world and, together with the protection afforded by Hydra, the Group maximises reinsurance capacity for its combined membership, representing over 90% of the world's tonnage and exposure. This is of major importance and benefit for all members of the International Group of P&I Clubs.

North Retention Reinsurance

As North has grown and developed, so we have increasingly been able to absorb more risk ourselves and reduce reliance on extensive reinsurance protection. In February 2008 we re-engineered and renewed our Stop Loss Protection Policy with long-term reinsurance partners Swiss Re for a further period of two years. Our close relationship and understanding with Swiss Re has allowed us to develop a product which provides for increased risk retention by the Club, and also recognises North's inherently conservative financial approach, whilst at the same time reducing excessive volatility for our Members. We are working with our advisors to explore and restructure a programme in advance of the February 2010 renewal.

Charterers' Non-Poolable Reinsurances

A strategic review of the Club's charterers' and non-poolable reinsurances led to the development of a charterers' facility in 2008 which is reinsured outside the International Group reinsurance programme.

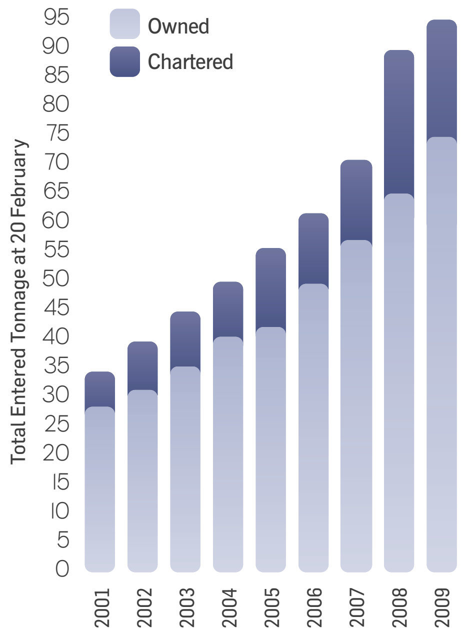
We now place all of our charterers' P&I reinsurance into this facility and we have also combined our extensive non-poolable and additional covers into this facility, which can respond to the needs of our developing Membership, enhancing the range of additional covers we can provide as well as providing more flexibility in respect of limits and pricing. The development of this facility is one of the Club's key strategic objectives of increasing the marine insurance product range for our Membership. The facility has operated successfully for 12 months and was satisfactorily renewed.

We have now also initiated a project to expand this facility to include offshore facilities for Members involved in these markets.

Hydra

The International Group's reinsurance arrangements with Hydra continue to provide excellent protection and valuable reinsurance stability. Hydra reinsures the upper Pool, i.e. US$20 million excess of US$30 million and the Group's 25% coinsurance of the first layer of the General Excess Loss Contract of US$500 million. In turn, Hydra protects its exposure to the coinsurance element via a Stop Loss Policy.

The extraordinary high level of claims in 2006 and 2007 had a severe impact on Hydra but 2008 was a much better year, in line with the fortunes of the Pool generally.



MEMBERSHIP

North continued to develop its Membership during the 12 months to 20 February 2009, and established a record again at the renewal, with total entered tonnage reaching 95m GT including a 15% increase in mutually owned entered tonnage compared to the same time in 2008. This was achieved against the background of a general increase of 17.5% in P&I premium rates agreed by the Board in light of another difficult year for claims and the anticipated loss of investment income in the year ahead. We acknowledge that this was a tough year for Members and we are extremely grateful to them for their continued support during the current difficult times.

20 February 2008

Total entered tonnage:	90 million GT
Owned:	65 million GT
Chartered:	25 million GT

20 February 2009

Total entered tonnage:	95 million GT
Owned:	75 million GT
Chartered:	20 million GT

Whilst we are delighted to report further growth, we continue to insist on "quality, not quantity". Our underwriters will only consider business which they believe is the right fit with North's quality standards particularly in the current economic climate. In keeping with the mutual concept it is essential that we do not unnecessarily expose our Membership to increased risks and any new Member must satisfy our underwriters of their quality and compatability with the existing membership. During the year we continued to attract high-quality new members notably from Canada, Germany, Greece, Italy, Japan and Indonesia. We anticipate further growth and development in these and other areas, in line with the development strategy established by the Board.

Present geographical spread of business by GT (by place of management):

Northern Europe	24%
Southern Europe	23%
Far East	21%
Middle East	14%
Scandinavia	12%
Americas	3%
Others	3%

Three ship sectors accounting for nearly 90% of the Membership by ship type. More specifically:

Ship type by GT:

Bulk carriers	36%
Tankers	30%
Containerships	23%
General cargo ships	3%
Other ship types	8%

INDUSTRY ISSUES

The shipping world began 2008 on a positive note but ended the year in freefall, after world trade came to a juddering halt, along with the rest of the world. Ironically, the year was also one of continued growth in tonnage. As the rush of newbuildings ordered at the peak of the market joined the world fleet so oversupply of tonnage added to shipping's woes. Suddenly the problems of seafarer shortages, berth congestion, fully booked shipyards and no time or space for maintenance work have evaporated. Barely a day goes by without a tale of disaster in terms of bankruptcies, rock-bottom freight rates, ships laid up and cancelled investments making the news.

Piracy

Shipping has made the news rather more than usual in recent months, due to the increasing scourge of piracy, particularly in the Gulf of Aden and off the east coast of Somalia. The frequency of pirate attacks has increased sharply and the number of incidents reported in the first quarter of 2009 was double the figure of a year before.

Several of our members have been victims of piracy incidents and no doubt more will suffer attacks in the months to come. This is of huge concern to us as a Club, and we urge more concerted governmental and international action in dealing with the issue.

BUSINESS & OPERATIONAL REVIEW (CONTINUED)

Piracy represents yet another "negative story" about the shipping industry and is a severe threat to the industry's ability to serve world trade – ironically including vital World Food Programme deliveries to Somalia. North has issued detailed guidelines to all of its Members whose vessels might be transiting high-risk areas, with advice on minimising the risk of attack, actions to take in the event of an attack, and actions to take if pirates succeed in boarding. We also continue to advise Members on their rights and obligations under current or imminent charter parties and/or bills of lading in the face of piracy risks.

Rotterdam Rules

The UNCITRAL Convention on Contracts for the International Carriage of Goods Wholly or Partly by Sea was adopted by the UN General Assembly in December 2008 and will be renamed the Rotterdam Rules after an official signing ceremony at the Dutch port in September this year. Despite some reservations, 21 delegations agreed that the Convention provided a rare opportunity for international unification and modernisation of maritime law and practice. Ratification by 20 contracting states is required before the Convention enters into force.

The new rules are intended to replace the Hamburg and Hague-Visby compensation regimes, both drawn up before the reality of globalisation and today's complex supply chains, to become the new benchmark for liability compensation claims. There has been a great deal of debate about the pros and cons of the Rotterdam Rules. While they will bring much-needed certainty and universality in terms of apportionment and levels of liability – a factor welcomed by the shipping industry in general – it is clear that they will also lead to an increase in the cost of claims. There is a perception that the Rotterdam Rules are as good as the industry is likely to get and the alternative would be a ps different local liability regimes and the absence of a common international standard.

Bunker Convention

The International Convention on Civil Liability for Bunker Oil Pollution Damage (Bunker Convention) entered into force in November 2008. In creating a liability, compensation and compulsory insurance system for the victims of pollution damage caused by bunker oil spills the Convention has placed yet another burden on shipowners – making them liable to pay compensation for pollution damage, including the cost of preventive measures. The International Group's work in connection with the Bunker Convention was vital in supporting the interests of shipowners as far as possible.

Insurance Directive

The industry's lobbying efforts paid off in respect of the Insurance Directive [formerly the Civil Liability Directive (CLD) and part of the EU's Third Maritime Package], with many of the unworkable aspects of the original scheme dropped. EU member states must bring the Directive into force in their national legislation by January 2012. As well as requiring shipowners to have insurance in place of the type provided by International Group Clubs, the Directive requires the insurance to cover maritime claims subject to limitation under LLMC. It is now understood that a standard P&I certificate of entry will be sufficient evidence of insurance cover within the Directive's provisions.

Maritime Labour Convention

The ILO's Maritime Labour Convention (MLC) 2006 provides rights and protection at work for the world's 1.2 million seafarers – consolidating and updating more than 65 international labour standards related to seafarers adopted over the past 80 years. It sets out seafarers' rights to decent conditions of work and aims to be globally applicable and easily understandable. From the Club's point of view, the critical issue within MLC has been the seafarer abandonment provisions.

The International Group and its members successfully lobbied on this subject and we welcome the amendments that have limited the shipowner's liability in this respect. Some see this liability as being "outside" the P&I sector's remit, but we disagree. We do not think that shipowners should have to go to another insurance market to protect this risk, but that P&I Clubs should provide this cover as part of their service to Members.

Hazardous and Noxious Substances (HNS) Convention

Although adopted, the HNS Convention has still not been widely ratified. Work has been ongoing to develop a protocol that might encourage wider ratification. The IMO Legal Committee has noted that any increases in shipowners' liability (i.e. any general increase and/or any increase in relation to incidents involving packaged hazardous and noxious substances) would be left to the diplomatic conference to decide. However, it seems likely that the International Chamber of Shipping and the International Group will be approached by various government representatives in the lead-up to the diplomatic conference to engage in informal discussions on possible increases to shipowners' liability.

P&I CLAIMS

The number of P&I claims increased again in the 2008 policy year – albeit against a background of a rapidly growing entry. There were 6,355 P&I claims in total, compared to 5,766 claims in the 2007 policy year.

As with previous years, a small number of high-value claims had the most detrimental effect – those claims estimated in excess of US$500,000 represented 1.27% of the total number of claims in 2008 but 55% of the total value.

Overall, the average value of claims was up from US$32,195 to US$37,174, with the total value of claims jumping from US$185.63 million to US$236.24 million. There were six pool claims across the International Group in 2008 with a total gross value at 20 February 2009 of US$129.28 million. Although this is a large figure, it compares favourably with 2006 and 2007, where the gross claim values were US$909.92 million and US$815.03 million.

Downturn in Claims?

P&I claims have risen steadily – and alarmingly – since 2005, in parallel to the unprecedented boom in the shipping industry and, particularly in the past two years, the shortage of experienced seafarers.

In the buoyant market, there were never enough seafarers to go around, with the consequence that some seafarers may have been promoted too rapidly and without the necessary experience.

Today, seafarers are more likely to be looking for job stability rather than job-hopping as they were in a peak market. We know that those Members that have high sea staff retention rates tend to have better overall claims records.

There are also reports that whilst freight rates are so low, owners may be tempted to try and save costs by employing less expensive seafarers – those that are less experienced. There is an expectation that those on high salaries will have to take a pay cut to maintain their jobs and there are fears that some seafarers will take the opportunity to leave the industry altogether. In short, the market will present opportunities and risks. There may be a better pool of crew available but it is unclear whether owners will take advantage of that – or simply use the opportunity to try to cut costs by reducing pay.

With many ships now working less intensively and, at least theoretically, with less pressure on ships and their crews, some commentators are forecasting a reduction in claims. We believe that the underlying claims trend is still heading upwards and whilst this year may give us a chance to draw breath, this may in truth only represent a pause.

So far the only discernible drop-off since the economic downturn has been in cargo claims; crew and collision claims are still showing upward movement. If owners do not take the opportunity during the slowdown to look after their ships and employ the best crews available, then the underlying drivers could continue to push claims up even further. Good managers will find it easier to operate to their own high standards whilst those owners which have cut corners in the past will continue to do so.

We also foresee potential problems in the current climate in that companies may feel forced to accept work which carries a higher risk in respect of cargo liabilities, and which involve higher-risk cargoes or operating/trading in more difficult jurisdictions. We would caution against such a path.

North's experience in the past year shows that the average value of admiralty claims rose significantly, reflecting some very high value claims and also the high repair costs and lengthy repair times during most of 2008.

Personal injury and illness claims have also risen in value, with figures detrimentally impacted by several large crew and third party injury claims during the year. Of the 40 most expensive retained claims in 2008, 85% involved human error – specifically problems with poor levels of risk evaluation, onboard procedures, bridge team management, vessel speed, passage planning and visual observation. This figure suggests there is still much work to be done in relation to the "human element" and this remains a key area of focus for our Loss Prevention team. It is to be hoped that the current downturn will at least create more time and opportunity for training, ship familiarisation and maintenance, but we would also hope to see improvements in shore-based support.

BUSINESS & OPERATIONAL REVIEW (CONTINUED)

LOSS PREVENTION

Reducing costs has become a critical priority for our Members as we work through the current economic downturn. We believe the most effective way to reduce costs is to reduce claims – our Loss Prevention department remains firmly focused on this mission.

North has always provided both general and more individual loss prevention advice. The general service includes the provision of information to raise awareness of, or in some instances, to address specific issues – for example, when trading to a particular geographic area, operating a particular type of ship or carrying a specific cargo.

This remains an essential part of our Loss Prevention service. However, in recent months we have looked carefully at what more we can do to help Members through the crisis. As a result, we are refocusing our efforts to deal with the increase in the number and cost of claims, helping our Members to identify the causes of these claims and to reduce them. In a direct response to the current situation, we have concentrated on an individual member specific approach and tailored advice services to our Members. We are able to translate what we learn from claims to real action in preventing future claims. This includes individual analysis that can identify real or potential problems, build a risk profile and tackle perceived risks.

A revised and refocused risk assessment based approach has been adopted which will see intensified efforts to assess ship condition, ship operation, management control systems ashore and afloat as well as company wide procedures. Proactive prevention rather than reactive analysis remains our goal. It is important that all members of a mutual achieve and maintain a minimum standard of operation with good procedures and management. Fleet reviews to assess effective ship and shore management can provide evidence of a quality operation. In keeping with the mutual concept we intend building on the already close relationship we have with our members to ensure and enhance still further the quality of our membership.

A number of factors will be considered when assessing operational quality standards but these will focus on a number of key areas including a review of the Club/Member experience, an assessment of a member's operation by our experienced staff in addition to those made during shipboard surveys by appointed surveyors. We will incorporate a wide range of available information into any assessment including port state records, ship vetting data provided by RightShip, to which we now subscribe, together with other information available to us.

Loss Prevention Working Party

A key step forward in our Risk Management strategy was the formation of North's Loss Prevention Working Party in 2007. This group works to identify the loss prevention needs of Members and find the best ways of meeting them. It includes a representative group of Members which typically meet twice a year. The working party plays an important role in advising the managers on loss prevention strategy and projects in the future. Recent initiatives such as our expansion of electronic loss prevention services and the consideration of specific types of cargo have been prompted by feedback from the working party.

Seminars and Training

During 2008, staff from the loss prevention department led seminars and workshops in about 100 of our Members' offices around the world. These sessions promote discussion on loss prevention issues raised by analysing claims trends within the Club. One of the subjects causing concern throughout the industry is the difficulty shipowners face recruiting experienced seafarers and the detrimental effect this may have on the efficient operation of ships – and subsequent P&I claims. Ship (admiralty) claims, especially damage to property, are of particular concern in this respect and aspects of bridge team management and pilotage have been central themes in the seminars.

Another trend which has been identified is the increase in the value of cargo claims thus cargo stowage has also featured heavily in seminars, including issues relating to bills of lading and letters of indemnity.

Survey Programme

North's Risk Management department also incorporates the Club's survey services. The department's condition survey programme is at the forefront of North's commitment to maintain a high-quality Membership. Routine surveys on ships are carried out according to the harmonised requirements of the International Group of P&I Clubs. Additional surveys may be carried out on ships that have been detained by Port State Control or involved in other incidents. These surveys do not replace or replicate those carried out by classification societies or flag states, but are focused on the risks associated with P&I and the loss prevention measures that can be taken to control these risks. Such inspections carried out by independent surveyors can also help Members to prepare for inspections and audits by other bodies.

FD&D

The full impact of the global downturn in world trade and the knock-on impact for the shipping industry are reflected only too clearly in North's FD&D figures for 2008. The number of FD&D claims handled increased by 56%, as a direct consequence of collapsing freight markets, oversupply of vessels, loss of confidence and a proliferation of charter defaults. The value of claims has also escalated and we are regularly dealing with claims for tens of millions of dollars, with more expected as the market must work its way through some painful corrections. With global trade in freefall, increasing numbers of charterers are simply not able to honour their obligations.

Massive falls in freight rates have led ship values to slide dramatically, often leading to a position where ships are worth less than the price for which they were bought or built. Long-term charters fixed on rates at the height of the market are suddenly unsustainable. Capesize bulk carriers that were attracting US$250,000 a day last summer have, in some cases, been practically reduced down to zero, with voyages being carried out for bunker costs alone. There have also been a number of new building disputes, including cases where shipyards have been facing problems with finance or credit.

Reversal of Fortunes

It has been a stunning reversal of fortunes; barely a year ago, Members were facing shipyard demands for more money to cover the rocketing price of steel, whilst trying hard to keep contracts live. Within six months, the situation had almost reversed in relation to precisely the same contracts. In many cases the market was lulled into a false sense of security, fixing long-term charters at tens of millions of dollars – only to face a collapse in underlying COAs. There have been a number of well-publicised charter failures and what isn't always appreciated is that when these companies fail, Owner Members have then had insult added to injury. Not only can they not recover lost hire or freight, but they are also facing claims from third parties, including costs for bunkers or stevedoring services which have not been paid by the charterer. The fallout from the credit crunch and collapse in world trade has probably been exacerbated by the fact that the boom years lasted so long, encouraging long chain charter agreements.

Long period time charters that were subsequently sub-chartered and possibly sub-sub-chartered, added complexity to some of the issues to be resolved. Aside from the economic situation, we have seen a significant increase in advisory work relating to the very real threat of piracy. A number of our Members' ships have been seized off Somalia, West Africa and elsewhere and we have handled a number of disputes relating to liability issues, and provided advice on the technical elements and insurance implications of such a threat.

Expanding the Team

All of this turmoil is leading to potential and real disputes and an increased demand from shipowners for fast and reliable advice. North has built up its FD&D department steadily over recent years and it has become an integral part of the Club. In the past year the team has been expanded further with the recruitment of three new staff in response to rising ship numbers and the steadily increasing number of disputes and legal expense claims. We have enhanced our FD&D presence in both Greece and Singapore – responding to the fact that our business has grown, and we are planning for future growth. We now have one of the largest in-house FD&D teams amongst the International Group Clubs, with more than two dozen experienced lawyers. Never has it been so important for Members to have access to a well-resourced, experienced and qualified defence partner.

COMBINED FINANCIAL STATEMENTS

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
20 February 2009
Combined Financial Statements

The Financial Statements of North of England P&I Association Limited ("NEPIA") and North of England Mutual Insurance Association (Bermuda) Limited ("NoE(Bermuda)"), collectively "the Associations", are published separately. Financial Statements which combine the results and financial position of the Associations follow on pages 18 to 41. All Members are Members of both Clubs and the combined financial statements have been prepared to allow Members to gain a picture of the overall position. The statements have been prepared for illustrative purposes only and have no legal standing. The return to the Financial Services Authority is based upon the combined position.

Any reference to the Club in the preceding narrative relates to the combined position.

ACCOUNTANTS' REPORT

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
20 February 2009
Combined Financial Statements

Accountants' Report to the Members of North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited

We report on the unaudited combined financial statements and policy year statement of North of England Protecting and Indemnity Association Limited ("NEPIA") and North of England Mutual Insurance Association (Bermuda) Limited ("NoE(Bermuda)") for the year ended 20 February 2009 ("the combined financial statements"). Our engagement was undertaken in accordance with the International Standard on Related Services 4400 "Engagements to perform agreed upon procedures". The procedures were performed solely to assist the Directors with the preparation of the combined financial statements.

Our Report is prepared solely for the confidential use of NEPIA and NoE(Bermuda), and solely for the purpose of informing the members of NEPIA and NoE(Bermuda). To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than NEPIA and NoE(Bermuda) and of the common members of NEPIA and NoE(Bermuda) as a body, for our work, for this report, or for the opinions we have formed.

Responsibilities

NEPIA's and NoE(Bermuda)'s Directors are responsible for the preparation of the combined financial statements and the policy year statement.

It is our responsibility to carry out the procedures below designed to enable us to report as to whether the combined financial statements and policy year statement have been properly extracted from the financial statements of NEPIA and NoE(Bermuda) for the year ended 20 February 2009.

Agreed upon procedures

We have performed the procedures enumerated below with respect to the combined financial statements as follows:

1. We agreed NEPIA's figures used in the combined financial statements working papers to the signed statutory consolidated financial statements of NEPIA as at 20 February 2009. The auditor's report on the statutory consolidated financial statements of NEPIA was issued by ourselves on 15 May 2009 and was unqualified;
2. We agreed NoE(Bermuda)'s figures used in the combined financial statements working papers to the signed statutory financial statements of NoE(Bermuda) as at 20 February 2009. The auditor's report on the statutory financial statements of NoE(Bermuda) was issued by ourselves on 5 May 2009 and was unqualified;
3. We checked the numerical accuracy of the combined financial statements working papers, including the policy year statement; and
4. We reviewed the accounting policies adopted by NEPIA and NoE(Bermuda), as defined in their respective statutory financial statements, to review whether they are consistent.

Findings

We report that:

a. With respect to items 1 and 2 we found that the combined financial statements and policy year statement have been properly compiled from the statutory financial statements of NEPIA and NoE(Bermuda); and

b. With respect to item 3 we found that the combined financial statements working papers, including the policy year statement, are numerically accurate; and

c. With respect to item 4 we found that consistent accounting policies have been adopted by NEPIA and NoE(Bermuda).

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the combined financial statements and policy year statement as at 20 February 2009.

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties.

Ernst & Young LLP
London
15 May 2009

COMBINED BALANCE SHEET

AT 20 FEBRUARY 2009

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements
(All Amounts in US Dollar thousands unless otherwise stated)

	Note	2009	2008
ASSETS			
Intangible assets		1,405	1,736
Property, plant and equipment		11,940	15,837
Financial assets			
Equity securities – at fair value through income	3	52	103,632
Debt securities – at fair value through income	3	213,592	466,777
Absolute return fund – at fair value through income	3	13,609	–
Loans and receivables including insurance and reinsurance receivables		17,200	15,938
Retirement benefit asset		15,083	16,468
Reinsurance contracts	5	167,504	155,623
Cash and cash equivalents	4	413,430	79,894
Total assets		**853,815**	**855,905**
ACCUMULATED SURPLUS			
Income and expenditure account		(46,600)	(46,047)
Contingency funds	13	253,060	258,258
Revaluation reserve		4,652	7,807
Total accumulated surplus		**211,112**	**220,018**
LIABILITIES			
Insurance contracts	5	619,872	614,426
Reinsurance payables		11,310	10,454
Cash and cash equivalents		303	2,138
Derivative financial instruments		580	67
Trade and other payables		9,693	8,305
Current tax liabilities		945	497
Total liabilities		**642,703**	**635,887**
Total accumulated surplus and liabilities		**853,815**	**855,905**

COMBINED INCOME STATEMENT

FOR THE YEAR ENDED 20 FEBRUARY 2009

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements
(All Amounts in US Dollar thousands unless otherwise stated)

	Note	2009	2008
Insurance premium revenue		255,082	213,015
Insurance premium ceded to reinsurers	6	(44,177)	(34,477)
		210,905	178,538
Investment income		4,540	2,992
Net fair value gains at fair value through income	7	(17,058)	36,807
Net income		**198,387**	**218,337**
Insurance claims and loss adjustment expenses	8	(167,851)	(208,498)
Insurance claims and loss adjustment expenses recovered from reinsurers	9	25,625	46,369
Net insurance benefits and claims		(142,226)	(162,129)
Expenses for the acquisition of insurance and investment contracts	10	(21,149)	(18,721)
Expenses for marketing and administration	11	(12,875)	(9,640)
Expenses for asset management services rendered		(2,276)	(1,809)
Expenses		**(178,526)**	**(192,299)**
Results of operating activities		19,861	26,038
Finance (expenditure) / income	12	(24,673)	5,201
(Deficit) / surplus before tax		(4,812)	31,239
Tax expense		(940)	(1,342)
(Deficit) / surplus for the year		**(5,752)**	**29,897**

NOTES TO THE ACCOUNTS

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
20 February 2009
Combined Financial Statements
(All Amounts in US Dollar thousands unless otherwise stated)

1. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these combined financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of presentation

These combined financial statements do not constitute North of England P&I Association Limited's ("NEPIA") statutory accounts for the years ended 20 February 2009 and 20 February 2008. They are the non-statutory combined financial statements of NEPIA and North of England Mutual Insurance Association (Bermuda) Limited ("NoE Bermuda").

These combined financial statements have been prepared in accordance with recognition, measurement and presentation principles of International Financial Reporting Standards (IFRS's) as adopted for use in the European Union. However, whilst the financial information included in these combined financial statements has been computed in accordance with IFRS's, these financial statements do not themselves contain sufficient information to comply with IFRS's and UK company law.

The combined financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and financial instruments.

The Associations have also adopted the corridor method under IAS 19 'Employee Benefits', recognising a portion of the scheme's actuarial gains and losses as income or expense as required under the standard. The Associations have applied the amended IAS 19 taking into account amendments to paragraphs 32A, 34, 61 and 121.

At the date of authorisation of these financial statements, the following Standards which have not been applied in these financial statements were in issue but not yet effective:

IFRS 8 "Operating segments"

In November 2006, the IASB issued IFRS 8, Operating Segments, the requirements of which are applicable for accounting periods beginning on or after 1 January 2009. On adoption, it will result in amendments to the disclosure of our segmental results but will have no impact on the results overall.

The preparation of financial statements in conformity with IFRS's requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Companies' accounting policies.

1.2 Combination

The combined financial statements combine the consolidated financial statements of NEPIA and the financial statements of NoE(Bermuda) made up to 20 February each year.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by NEPIA.

All intra-group transactions, balances, income and expenses are eliminated on consolidation or combination.

1.3 Foreign currency translation

(a) Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The combined financial statements are presented in thousands of United States Dollars, which is the functional currency of NEPIA and NoE(Bermuda).

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equities held at fair value through income, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as land and buildings, are included in the revaluation reserve.

1.4 Property, plant and equipment

Land and building is comprised of the office occupied by NEPIA. Land and building is shown at fair value, based on periodic, but at least triennial, valuations by external independent appraisers. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to NEPIA and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to the revaluation reserve.
Decreases that offset previous increases of the same asset and other decreases are charged to the revaluation reserve in the first instance.

Depreciation on property, plant and equipment is calculated to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Land	No depreciation charged.
Buildings	2% per annum reducing balance method.
Computer Equipment	20% per annum straight line method.
Motor Vehicles	25% per annum reducing balance method.
Office Equipment and Fittings	20% per annum straight line method.

The assets' residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate.

An asset's carrying amount is written down immediately through the Income Statement to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

1.5 Intangible assets

Costs in respect of major software developments are capitalised. Capitalised software costs that are not an integral part of the related hardware are included in intangible assets on the balance sheet and amortised over the expected life of the software of up to 5 years.

1.6 Investments

Financial assets at fair value through income

The Associations classify their investments as financial assets at fair value through income. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date. Financial assets at fair value through income are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through income category are included in the Income Statement in the period in which they arise.

Regular purchases and sales of investments are recognised on trade date, the date on which the Associations commit to purchase or sell the asset. Investments are initially recognised at fair value. Investments are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Associations have also transferred substantially all risks and rewards of ownership.

The fair values of quoted investments are based on current bid prices.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The Associations do not engage in hedge accounting and changes in the fair value of all derivative instruments are recognised immediately in the Income Statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Associations intend to sell in the short term or that they have designated as at fair value through income or available-for-sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
20 February 2009
Combined Financial Statements
(All Amounts in US Dollar thousands unless otherwise stated)

1.7 Impairment of assets

The Associations assess at each balance sheet date whether there is objective evidence that a financial asset or non financial asset is impaired. An asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the asset that can be reliably estimated.

Objective evidence that an asset or group of assets is impaired includes observable data that comes to the attention of the Associations about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow or carrying amount from an asset or group of assets since the initial recognition of those assets.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the Income Statement.

1.8 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

1.9 Revenue and expense recognition

Premium income

All elements of revenue arising from insurance contracts and other related services offered by the Associations are recognised on an accruals basis in the accounting period in which the contract is related or services are rendered. The Associations' policy years run from noon GMT on any 20 February to noon GMT on the next following 20 February. The Associations' financial years are coterminous with their policy years.

Reinsurance premiums and recoveries

Reinsurance premiums, less returns, are charged to the Income Statement on an accrual basis, including a provision for the future expected costs of adjustments to the premium due under existing reinsurance policies. Recoveries under policies purchased by the Associations are accrued so as to match the relevant gross claims and associated provisions and reserves upon which the Associations are entitled to make recoveries.

Claims and related expenses

Claims paid are defined as those claims transactions settled up to the balance sheet date including the internal and external claims settlement expenses allocated to those transactions. The reinsurers' share represents recoveries received from reinsurance protections in the period plus recoveries receivable against claims paid that have not been received at the balance sheet date, net of any provision for bad debt.

Claims reserves are estimated on an undiscounted basis. Any changes to the amounts held are adjusted through the Income Statement. Claims reserves are made for known or anticipated liabilities under insurance contracts which have not been settled up to the balance sheet date. Included within the provision is an allowance for the future costs of handling those claims. This is estimated based on past experience and current expectations of future cost levels.

Although the claims reserves are considered to be reasonable, having regard to previous claims experience (including the use of certain statistically based projections), case by case reviews of notified losses and on the basis of information available at the date of determining the provision, the ultimate liabilities will vary as a result of subsequent information and events.

(All Amounts in US Dollar thousands unless otherwise stated)

Interest

Interest comprises interest on cash deposits and interest bearing securities and is recognised on an accruals basis.

Employee benefits

Salaries and other employee benefits, including holiday pay, are accounted for on an accrual basis. Payments to staff under the discretionary staff performance related bonus scheme are accounted for in the financial year in which they are awarded.

Retirement benefit scheme

NEPIA operates a pension scheme providing benefits based upon final pensionable salary, known as a defined benefit scheme. The assets of the scheme are held separately from those of NEPIA, being invested with professional managers.

The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. In accordance with IAS 19, NEPIA recognises a portion of the scheme's actuarial gains and losses as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the preceding reporting period exceeded the greater of (a) 10% of the present value of the defined benefit obligation at that date; and (b) 10% of the fair value of any plan assets at that date. The portion of actuarial gains and losses to be recognised is the excess, determined as described above, divided by the expected remaining average working lives of the employees participating in the plan.

Taxation

UK Corporation Tax is provided on relevant investment income. There is no deferred tax in the year to 20 February 2009 (2008 – nil).

The principal rates of exchange ruling at the balance sheet date were as follows:

	2009			2008
United Kingdom	£0.698	=	US$1	(£ 0.515)
Euro	€0.793	=	US$1	(€ 0.683)
Japan	YEN94.16	=	US$1	(YEN 108.035)

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2. SEGMENTAL ANALYSIS BY CLASS

The segment financial positions for the year ended 20 February 2009 are shown below:

Balance Sheet

	Note	P&I	FD&D	War Risks	Total
ASSETS					
Intangible assets		1,405	–	–	1,405
Property, plant and equipment		11,940	–	–	11,940
Financial assets					
Equity securities:					
– at fair value through income	3	52	–	–	52
Debt securities:					
– at fair value through income	3	213,592	–	–	213,592
Absolute return fund	3	13,609	–	–	13,609
Loans and receivables including insurance and reinsurance receivables		16,088	1,013	99	17,200
Retirement benefit asset		15,083	–	–	15,083
Reinsurance contracts	5	161,136	6,368	–	167,504
Cash and cash equivalents	4	365,305	43,332	4,793	413,430
Total assets		**798,210**	**50,713**	**4,892**	**853,815**
ACCUMULATED SURPLUS					
Income and expenditure account		(40,342)	(11,217)	4,959	(46,600)
Contingency funds	13	233,506	19,554	–	253,060
Revaluation reserve		4,652	–	–	4,652
Total accumulated surplus		**197,816**	**8,337**	**4,959**	**211,112**
LIABILITIES					
Insurance contracts	5	581,634	38,238	–	619,872
Reinsurance payables		10,706	472	132	11,310
Cash and cash equivalents		303	–	–	303
Derivative financial instruments		580	–	–	580
Trade and other payables		6,226	3,666	(199)	9,693
Current tax liabilities		945	–	–	945
Total liabilities		**600,394**	**42,376**	**(67)**	**642,703**
Total accumulated surplus and liabilities		**798,210**	**50,713**	**4,892**	**853,815**

(All Amounts in US Dollar thousands unless otherwise stated)

2. SEGMENTAL ANALYSIS BY CLASS (CONTINUED)

The segment results for the year ended 20 February 2009 are shown below:

Income Statement

	Note	P&I	FD&D	War Risks	Total
Insurance premium revenue		238,318	15,850	914	255,082
Insurance premium ceded to reinsurers	6	(40,970)	(2,552)	(655)	(44,177)
		197,348	13,298	259	210,905
Investment income		4,289	218	33	4,540
Net fair value gains at fair value through income	7	(19,104)	2,278	(232)	(17,058)
Net income		**182,533**	**15,794**	**60**	**198,387**
Insurance claims and loss adjustment expenses	8	(149,212)	(18,639)	–	(167,851)
Insurance claims and loss adjustment expenses recovered from reinsurers	9	19,257	6,368	–	25,625
Net insurance benefits and claims		(129,955)	(12,271)	–	(142,226)
Expenses for the acquisition of insurance and investment contracts	10	(20,082)	(1,057)	(10)	(21,149)
Expenses for marketing and administration	11	(9,687)	(2,959)	(229)	(12,875)
Expenses for asset management services rendered		(2,274)	(2)	–	(2,276)
Expenses		**(161,998)**	**(16,289)**	**(239)**	**(178,526)**
Results of operating activities		20,535	(495)	(179)	19,861
Finance (expenditure) / income	12	(19,704)	(5,382)	413	(24,673)
Surplus / (deficit) before tax		831	(5,877)	234	(4,812)
Tax expense		(853)	(81)	(6)	(940)
(Deficit) / surplus for the year		**(22)**	**(5,958)**	**228**	**(5,752)**

NOTES TO THE ACCOUNTS (CONTINUED)

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2. SEGMENTAL ANALYSIS BY CLASS (CONTINUED)

The segment financial positions for the year ended 20 February 2008 are shown below:

Balance Sheet

	Note	P&I	FD&D	War Risks	Total
ASSETS					
Intangible assets		1,736	–	–	1,736
Property, plant and equipment		15,837	–	–	15,837
Financial assets					
Equity securities:					
– at fair value through income	3	102,488	–	1,144	103,632
Debt securities:					
– at fair value through income	3	425,275	38,672	2,830	466,777
Loans and receivables including insurance and reinsurance receivables		14,222	1,696	20	15,938
Retirement benefit asset		16,468	–	–	16,468
Reinsurance contracts	5	155,623	–	–	155,623
Cash and cash equivalents	4	77,368	1,228	1,298	79,894
Total assets		**809,017**	**41,596**	**5,292**	**855,905**
ACCUMULATED SURPLUS					
Income and expenditure account		(43,404)	(7,374)	4,731	(46,047)
Contingency funds	13	236,589	21,669	–	258,258
Revaluation reserve		7,807	–	–	7,807
Total accumulated surplus		**200,992**	**14,295**	**4,731**	**220,018**
LIABILITIES					
Insurance contracts	5	587,227	27,199	–	614,426
Reinsurance payables		10,082	270	102	10,454
Cash and cash equivalents		2,138	–	–	2,138
Derivative financial instruments		67	–	–	67
Trade and other payables		8,014	(168)	459	8,305
Current tax liabilities		497	–	–	497
Total liabilities		**608,025**	**27,301**	**561**	**635,887**
Total accumulated surplus and liabilities		**809,017**	**41,596**	**5,292**	**855,905**

(All Amounts in US Dollar thousands unless otherwise stated)

2. SEGMENTAL ANALYSIS BY CLASS (CONTINUED)

The segment results for the year ended 20 February 2008 are shown below:

Income Statement

	Note	P&I	FD&D	War Risks	Total
Insurance premium revenue		198,652	13,669	694	213,015
Insurance premium ceded to reinsurers	6	(33,404)	(613)	(460)	(34,477)
		165,248	13,056	234	178,538
Investment income		2,953	29	10	2,992
Net fair value gains at fair value through income	7	34,048	2,609	150	36,807
Net income		**202,249**	**15,694**	**394**	**218,337**
Insurance claims and loss adjustment expenses	8	(200,038)	(8,460)	–	(208,498)
Insurance claims and loss adjustment expenses recovered from reinsurers	9	46,631	(262)	–	46,369
Net insurance benefits and claims		(153,407)	(8,722)	–	(162,129)
Expenses for the acquisition of insurance and investment contracts	10	(17,880)	(832)	(9)	(18,721)
Expenses for marketing and administration	11	(6,615)	(2,818)	(207)	(9,640)
Expenses for asset management services rendered		(1,768)	(7)	(34)	(1,809)
Expenses		**(179,670)**	**(12,379)**	**(250)**	**(192,299)**
Results of operating activities		22,579	3,315	144	26,038
Finance income	12	5,234	(42)	9	5,201
Surplus before tax		27,813	3,273	153	31,239
Tax expense		(1,254)	(84)	(4)	(1,342)
Surplus for the year		**26,559**	**3,189**	**149**	**29,897**

NOTES TO THE ACCOUNTS (CONTINUED)

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3. FAIR VALUE SECURITIES

	At 20 February 2009			
	P&I	FD&D	War Risks	Total
Market value				
Equity securities – at fair value through income	52	–	–	52
Debt securities – at fair value through income	213,592	–	–	213,592
Absolute return fund – at fair value through income	13,609	–	–	13,609
	227,253	**–**	**–**	**227,253**
Cost				
Equity securities – at fair value through income	1	–	–	1
Debt securities – at fair value through income	214,042	–	–	214,042
Absolute return fund – at fair value through income	15,009	–	–	15,009
	229,052	**–**	**–**	**229,052**

	At 20 February 2008			
	P&I	FD&D	War Risks	Total
Market value				
Equity securities – at fair value through income	102,488	–	1,144	103,632
Debt securities – at fair value through income	425,275	38,672	2,830	466,777
	527,763	**38,672**	**3,974**	**570,409**
Cost				
Equity securities – at fair value through income	104,827	–	619	105,446
Debt securities – at fair value through income	406,450	36,259	1,981	444,690
	511,277	**36,259**	**2,600**	**550,136**

4. CASH AND CASH EQUIVALENTS

	At 20 February 2009			
	P&I	FD&D	War Risks	Total
Cash at bank and in hand	10,331	312	18	10,661
Short-term bank deposits	15,186	–	–	15,186
Money market funds	334,683	43,020	4,775	382,478
Short-term maturity bonds	5,105	–	–	5,105
	365,305	**43,332**	**4,793**	**413,430**

	At 20 February 2008			
	P&I	FD&D	War Risks	Total
Cash at bank and in hand	65,234	1,228	1,298	67,760
Short-term bank deposits	12,134	–	–	12,134
	77,368	**1,228**	**1,298**	**79,894**

(All Amounts in US Dollar thousands unless otherwise stated)

5. INSURANCE CONTRACTS

Policy year analysis

	Closed years	2006	Open policy years 2007	2008	Handling reserve	Total
ALL CLASSES						
At 20 February 2009						
Gross outstanding claims	173,567	87,124	120,246	221,235	17,700	619,872
Reinsurance amount	49,476	23,565	32,247	62,216	–	167,504
Net outstanding claims	**124,091**	**63,559**	**87,999**	**159,019**	**17,700**	**452,368**
At 20 February 2008						
Gross outstanding claims	244,679	148,232	199,015	–	22,500	614,426
Reinsurance amount	57,672	54,828	43,123	–	–	155,623
Net outstanding claims	**187,007**	**93,404**	**155,892**	**–**	**22,500**	**458,803**

	Closed years	2006	Open policy years 2007	2008	Handling reserve	Total
P&I CLASS						
At 20 February 2009						
Gross outstanding claims						
Members	151,721	68,382	96,430	187,167	13,200	516,900
Pooling agreement	15,879	15,005	17,281	16,569	–	64,734
	167,600	**83,387**	**113,711**	**203,736**	**13,200**	**581,634**
Reinsurance amount						
Recoveries due under the pooling agreement	17,827	7,501	3,247	8,851	–	37,426
Recoveries due from reinsurers	31,576	16,064	29,000	47,070	–	123,710
	49,403	**23,565**	**32,247**	**55,921**	**–**	**161,136**
Net outstanding claims	**118,197**	**59,822**	**81,464**	**147,815**	**13,200**	**420,498**
At 20 February 2008						
Gross outstanding claims	236,031	143,903	190,793	–	16,500	587,227
Reinsurance amount	57,672	54,828	43,123	–	–	155,623
Net outstanding claims	**178,359**	**89,075**	**147,670**	**–**	**16,500**	**431,604**

NOTES TO THE ACCOUNTS (CONTINUED)

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5. INSURANCE CONTRACTS (CONTINUED)

	Closed years	2006	Open policy years 2007	2008	Handling reserve	Total
FD&D CLASS						
At 20 February 2009						
Gross outstanding claims	5,967	3,737	6,535	17,499	4,500	38,238
Reinsurance amount						
Recoveries due from reinsurers	73	–	–	6,295	–	6,368
Net outstanding claims	**5,894**	**3,737**	**6,535**	**11,204**	**4,500**	**31,870**
At 20 February 2008						
Gross outstanding claims	8,648	4,329	8,222	–	6,000	27,199
Reinsurance amount	–	–	–	–	–	–
Net outstanding claims	**8,648**	**4,329**	**8,222**	**–**	**6,000**	**27,199**

WAR RISKS CLASS

There were no outstanding claims at 20 February 2009 (20 February 2008 – nil).

6. INSURANCE PREMIUM CEDED TO REINSURERS

	Year ended 20 February 2009 P&I	FD&D	War Risks	Total
Market	21,430	2,552	453	24,435
International Group	19,540	–	–	19,540
War Risks Group	–	–	202	202
	40,970	2,552	655	44,177

	Year ended 20 February 2008 P&I	FD&D	War Risks	Total
Market	13,891	613	211	14,715
International Group	19,513	–	–	19,513
War Risks Group	–	–	249	249
	33,404	613	460	34,477

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7. FAIR VALUE SECURITIES

	Year ended 20 February 2009			
	P&I	FD&D	War Risks	Total
Debt securities				
Fixed interest	8,573	5	–	8,578
Net realised gains	26,525	4,686	1,012	32,223
Net movement on unrealised losses	(20,677)	(2,413)	(849)	(23,939)
	14,421	**2,278**	**163**	**16,862**
Equities				
Dividends	1,312	–	15	1,327
Net realised (losses) / gains	(37,218)	–	115	(37,103)
Net movement on unrealised gains / (losses)	2,381	–	(525)	1,856
	(33,525)	**–**	**(395)**	**(33,920)**
Total	**(19,104)**	**2,278**	**(232)**	**(17,058)**

	Year ended 20 February 2008			
	P&I	FD&D	War Risks	Total
Debt securities				
Fixed interest	9,745	182	–	9,927
Net realised gains / (losses)	2,243	(462)	–	1,781
Net movement on unrealised gains	20,192	2,889	243	23,324
	32,180	**2,609**	**243**	**35,032**
Equities				
Dividends	1,088	–	–	1,088
Net realised gains	6,955	–	915	7,870
Net movement on unrealised losses	(6,175)	–	(1,008)	(7,183)
	1,868	**–**	**(93)**	**1,775**
Total	**34,048**	**2,609**	**150**	**36,807**

NOTES TO THE ACCOUNTS (CONTINUED)

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8. INSURANCE CLAIMS AND LOSS ADJUSTMENT EXPENSES

	Year ended 20 February 2009			
	P&I	FD&D	War Risks	Total
Gross claims paid				
Members' claims	124,550	4,567	–	129,117
Pooling agreement	18,283	–	–	18,283
Claims handling costs	11,972	3,033	–	15,005
	154,805	7,600	–	162,405
Movement in gross outstanding claims				
Members' claims	(3,701)	11,039	–	7,338
Pooling agreement	(1,892)	–	–	(1,892)
	(5,593)	11,039	–	5,446
Total gross claims	149,212	18,639	–	167,851

	Year ended 20 February 2008			
	P&I	FD&D	War Risks	Total
Gross claims paid				
Members' claims	108,469	4,378	–	112,847
Pooling agreement	28,899	–	–	28,899
Claims handling costs	13,219	2,888	–	16,107
	150,587	7,266	–	157,853
Movement in gross outstanding claims				
Members' claims	55,585	1,194	–	56,779
Pooling agreement	(6,134)	–	–	(6,134)
	49,451	1,194	–	50,645
Total gross claims	200,038	8,460	–	208,498

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9. INSURANCE CLAIMS AND LOSS ADJUSTMENT EXPENSES RECOVERED FROM REINSURERS

	Year ended 20 February 2009			
	P&I	FD&D	War Risks	Total
Reinsurance recoverable on claims paid				
Claims recoverable from reinsurers	8,644	–	–	8,644
Claims recoverable under the pooling agreement	5,100	–	–	5,100
	13,744	**–**	**–**	**13,744**
Reinsurance recoverable on outstanding claims				
Recoveries due from reinsurers	3,299	6,368	–	9,667
Recoveries due under the pooling agreement	2,214	–	–	2,214
	5,513	**6,368**	**–**	**11,881**
Total	**19,257**	**6,368**	**–**	**25,625**

	Year ended 20 February 2008			
	P&I	FD&D	War Risks	Total
Reinsurance recoverable on claims paid				
Claims recoverable from reinsurers	3,720	3	–	3,723
Claims recoverable under the pooling agreement	7,102	–	–	7,102
	10,822	**3**	**–**	**10,825**
Reinsurance recoverable on outstanding claims				
Recoveries due from reinsurers	42,821	(265)	–	42,556
Recoveries due under the pooling agreement	(7,012)	–	–	(7,012)
	35,809	**(265)**	**–**	**35,544**
Total	**46,631**	**(262)**	**–**	**46,369**

NOTES TO THE ACCOUNTS (CONTINUED)

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10. EXPENSES FOR THE ACQUISITION OF INSURANCE AND INVESTMENT CONTRACTS

	Year ended 20 February 2009			
	P&I	FD&D	War Risks	Total
Brokerage	14,598	1,057	10	15,665
Acquisition costs	5,484	–	–	5,484
	20,082	**1,057**	**10**	**21,149**

	Year ended 20 February 2008			
	P&I	FD&D	War Risks	Total
Brokerage	11,917	832	9	12,758
Acquisition costs	5,963	–	–	5,963
	17,880	**832**	**9**	**18,721**

In accordance with Schedule 3 of the International Group Agreement 1999 we are required to disclose the Average Expense Ratio for the Association's P&I business for the five years ended 20 February 2009. The Ratio of 10.8% (2008 – 9.2%) has been calculated in accordance with the Schedule and the guidelines issued by the International Group and is consistent with the relevant Financial Statements of NEPIA and NoE(Bermuda).

11. EXPENSES FOR MARKETING AND ADMINISTRATION

	Year ended 20 February 2009			
	P&I	FD&D	War Risks	Total
Gross marketing and administration expenses	29,299	5,992	229	35,520
Acquisition costs	(5,484)	–	–	(5,484)
Amount recharged to Marine Shipping Mutual Insurance Company Limited	(2,156)	–	–	(2,156)
Claims handling costs	(11,972)	(3,033)	–	(15,005)
	9,687	**2,959**	**229**	**12,875**

	Year ended 20 February 2008			
	P&I	FD&D	War Risks	Total
Gross marketing and administration expenses	28,174	5,706	207	34,087
Acquisition costs	(5,963)	–	–	(5,963)
Amount recharged to Marine Shipping Mutual Insurance Company Limited	(2,377)	–	–	(2,377)
Claims handling costs	(13,219)	(2,888)	–	(16,107)
	6,615	**2,818**	**207**	**9,640**

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12. FINANCE INCOME

	Year ended 20 February 2009			
	P&I	FD&D	War Risks	Total
Foreign exchange expense on investments	(7,571)	(5,098)	–	(12,669)
Other	(12,133)	(284)	413	(12,004)
	(19,704)	**(5,382)**	**413**	**(24,673)**

	Year ended 20 February 2008			
	P&I	FD&D	War Risks	Total
Foreign exchange income / (expense) on investments	4,988	(152)	–	4,836
Other	246	110	9	365
	5,234	**(42)**	**9**	**5,201**

13. CONTINGENCY FUNDS

Protecting and Idemnity Class

	2009	2009	2008	2008
Balance at 20 February 2008		236,589		223,721
The transfer from the Income and Expenditure account comprises:				
Allocation of realised investment (losses) / gains and income	(36,842)		7,523	
Surplus transferred from closed policy years	33,759		5,345	
		(3,083)		12,868
Balance at 20 February 2009		**233,506**		**236,589**

The contingency fund was established on 12 October 1983 in order to maintain call stability.

Freight, Demurrage & Defence Class

	2009	2009	2008	2008
Balance at 20 February 2008		21,669		21,936
The transfer from the Income and Expenditure account comprises:				
Allocation of realised investment losses and income	(1,322)		(1,481)	
(Deficit) / surplus transferred from closed policy years	(793)		1,214	
		(2,115)		(267)
Balance at 20 February 2009		**19,554**		**21,669**

The contingency fund was established on 23 September 1994 in order to maintain call stability.

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14. INTERNATIONAL GROUP DISCLOSURE

Disclosure for the International Group accounting requirements in respect of outstanding reinsurance recoveries on paid claims in the P&I Class is as follows:

	2009	2008
Recoveries due under the pooling agreement	11	260
Recoveries due from other reinsurers	3,155	866
	3,166	**1,126**

Disclosure for the International Group accounting requirements in respect of the change in provision in respect of claims paid in the P&I Class is as follows:

	2009	2008
Gross outstanding claims		
Members	(3,701)	55,585
Pooling agreement	(1,893)	(6,134)
	(5,594)	**49,451**
Reinsurers' share		
Recoveries due from reinsurers	(3,299)	(42,821)
Recoveries due under the pooling agreement	(2,214)	7,012
	(5,513)	**(35,809)**
Movement in net outstanding claims	11,107	13,642

COMBINED P&I CLASS POLICY YEAR STATEMENT

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	Closed years	2006/ 2007	2007/ 2008	2008/ 2009	Claims Handling Reserve	Contingency Funds	Unrealised Losses	Total
Premium								
Mutual & Fixed Premium								
Invoiced in Prior Years		171,342	184,679	–	–	–	–	356,021
Invoiced in Current Year		(212)	123	221,266	–	–	–	221,177
		171,130	184,802	221,266	–	–	–	577,198
Release Premium		605	1,089	1,318	–	–	–	3,012
		171,735	185,891	222,584	–	–	–	580,210
Reinsurance Premiums		(30,252)	(37,201)	(41,165)	–	–	–	(108,618)
		141,483	148,690	181,419	–	–	–	471,592
Investment income, gains on sales of investments, and exchange movements		18,607	20,694	20,609	–	117,310	(1,798)	175,422
Transfers		26,800	–	–	–	119,261	–	146,061
		186,890	169,384	202,028	–	236,571	(1,798)	793,075
Members' & Pool Claims		(101,272)	(75,453)	(32,331)	–	–	–	(209,056)
Expenses & Tax		(26,401)	(28,819)	(30,269)	–	(3,065)	–	(88,554)
Surplus Available on Closed Years	118,197	–	–	–	–	–	–	118,197
Balances Available for Outstanding Claims	118,197	59,217	65,112	139,428	–	233,506	(1,798)	613,662
Outstanding Claims	(167,600)	(83,387)	(113,711)	(203,736)	(13,200)	–	–	(581,634)
Reinsurance Recoveries	49,403	23,565	32,247	55,921	–	–	–	161,136
	(118,197)	(59,822)	(81,464)	(147,815)	(13,200)	–	–	(420,498)
Revaluation Reserve	–	–	–	–	–	–	–	4,652
Surplus / (Deficit) at 20 February 2009	**–**	**(605)**	**(16,352)**	**(8,387)**	**(13,200)**	**233,506**	**(1,798)**	**197,816**
Surplus / (Deficit) at 20 February 2008	1,843	(3,116)	(42,118)	–	(16,500)	236,589	16,487	200,992

NOTES TO THE COMBINED P&I CLASS POLICY YEAR STATEMENT

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Combined Financial Statements
(All Amounts in US Dollar thousands unless otherwise stated)

1. The Combined P&I Class Policy Year Statement ("the Statement") is based on the combined policy year results of the Association and NoE(Bermuda) ("the Associations"). The Statement aggregates the policy year statements of the Associations and eliminates the effect of the reinsurance transaction by which the Association reinsures 90% of its P&I risks and accumulated outstanding claims with NoE(Bermuda). The Associations have accounted for the reinsurance transaction in their respective accounts for the period ended 20 February 2009.
2. Investment income, gains and losses on sales of investments and exchange movements are allocated to open policy years on the basis of a seven year projection using the annualised return of the previous seven years, and the remainder is allocated to the contingency fund. The foreign exchange gain on the freehold building is included in unrealised gains and foreign exchange.
3. Premium is net of brokerage.
4. Expenses and tax charged to open policy years are as follows:

	2006/2007	2007/2008	2008/2009
General and administrative expenses	23,747	25,797	27,142
Investment expenses	1,410	1,768	2,273
Taxation	1,244	1,254	854
	26,401	**28,819**	**30,269**

5. Estimated outstanding claims include appropriate amounts in each policy year for incurred but not reported (IBNR) claims.
6. A deficit on any open policy year will be funded by, if necessary, a transfer from the Contingency Fund or by making supplementary calls.
7. Future investment income has not been included in the statement and claims have not been discounted.
8. Transfers are made from the Contingency Fund to meet exceptional items and to maintain call stability.
9. The approximate yield of a 10% supplementary call on the open policy years would be: 2006/07 US$14.3 million
2007/08 US$15.5 million
2008/09 US$18.8 million

COMBINED FD&D CLASS POLICY YEAR STATEMENT

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
20 February 2009
Combined Financial Statements
(All Amounts in US Dollar thousands unless otherwise stated)

	Closed years	2006/ 2007	2007/ 2008	2008/ 2009	Claims Handling Reserve	Contingency Funds	Unrealised Losses	Total
Premium								
Mutual & Fixed Premium								
Invoiced in Prior Years		10,669	12,632	–	–	–	–	23,301
Invoiced in Current Year		9	5	14,692	–	–	–	14,706
		10,678	12,637	14,692	–	–	–	38,007
Release Premium		11	27	58	–	–	–	96
		10,689	12,664	14,750	–	–	–	38,103
Reinsurance Premiums		(1,546)	(1,140)	(1,414)	–	–	–	(4,100)
		9,143	11,524	13,336	–	–	–	34,003
Investment income, gains on sales of investments, and exchange movements		838	1,188	849	–	3,341	–	6,216
Transfers from closed years		–	–	–	–	16,213	–	16,213
		9,981	12,712	14,185	–	19,554	–	56,432
Claims		(2,001)	(2,137)	(1,338)	–	–	–	(5,476)
Expenses & Tax		(4,771)	(5,797)	(6,075)	–	–	–	(16,643)
Surplus Available on Closed Years	5,894	–	–	–	–	–	–	5,894
Balances Available for Outstanding Claims	5,894	3,209	4,778	6,772	–	19,554	–	40,207
Outstanding Claims	(5,967)	(3,737)	(6,535)	(17,499)	(4,500)	–	–	(38,238)
Reinsurance Recoveries	73	–	–	6,295	–	–	–	6,368
	(5,894)	(3,737)	(6,535)	(11,204)	(4,500)	–	–	(31,870)
Surplus / (Deficit) at 20 February 2009	**–**	**(528)**	**(1,757)**	**(4,432)**	**(4,500)**	**19,554**	**–**	**8,337**
Surplus / (Deficit) at 20 February 2008	(2,142)	193	(1,838)	–	(6,000)	21,669	2,413	14,295

NOTES TO THE COMBINED FD&D CLASS POLICY YEAR STATEMENT

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
20 February 2009
Combined Financial Statements
(All Amounts in US Dollar thousands unless otherwise stated)

1. The Combined FD&D Class Policy Year Statement (“the Statement”) is based on the combined policy year results of the Association and NoE(Bermuda) (“the Associations”). The Statement aggregates the policy year statements of the Associations and eliminates the effect of the reinsurance transaction by which the Association reinsures 90% of its FD&D risks and accumulated outstanding claims with NoE(Bermuda). The Associations have accounted for the reinsurance transaction in their respective accounts for the period ended 20 February 2009.
2. Investment income, gains and losses on sales of investments and exchange movements are allocated to open policy years on the basis of a seven year projection using the annualised return of the previous seven years, and the remainder is allocated to the contingency fund.
3. Premium is net of brokerage.
4. Expenses and tax charged to open policy years are as follows:

	2006/2007	2007/2008	2008/2009
General and administrative expenses	4,661	5,706	5,992
Investment expenses	85	7	2
Taxation	25	84	81
	4,771	5,797	6,075

5. Estimated outstanding claims include appropriate amounts in each policy year for incurred but not reported (IBNR) claims.
6. A deficit on any open policy year will be funded by, if necessary, a transfer from the Contingency Fund or by making supplementary calls.
7. Future investment income has not been included in the statement and claims have not been discounted.
8. Transfers are made from the Contingency Fund to meet exceptional items and to maintain call stability. The surplus on closed years has been transferred to the Contingency Fund.
9. The approximate yield of a 10% supplementary call on the open policy years would be: 2006/07 US$0.7 million
2007/08 US$0.9 million
2008/09 US$1.0 million

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